THE AUDIT MARKET IN 2018

SOURCE GLOBAL RESEARCH

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INTRODUCTION: A PLACE MARKER AND A ROAD MAP

The global audit market is under enormous pressure these days. With a number of high-profile corporate collapses in recent years—all happening under an auditor's supposedly watchful eye—everything about audit is being questioned—by regulators, by investors, even by auditors themselves.

There are allegations that the Big Four audit firms (Deloitte, EY, KPMG, and PwC, constituting an unquestionable oligopoly in the global audit market) have become too big, suffocating competition and hurting audit quality in the process. Related to this are worries that the Big Four offering advisory services alongside audit creates grave conflicts of interest, diminishing quality and impartiality across all services delivered. There are also complaints that audit tenures have become too long, creating overly cosy relationships that diminish the auditors' objectivity and may mask—or even facilitate—unethical and illegal practices.

Responses to these concerns are many, varied, and coming from all corners. Corporate boards—and the investors to whom they answer—are demanding more from auditors, increasing the complexity of audit. They're also re-examining their relationships with individual auditors, questioning how long they should stick with the same supplier and whether or not they should be turning to an auditor to provide non-audit services. Perhaps more significantly, regulators have also stepped into the fray. In many cases, they have instituted mandatory audit firm rotation (MAFR hereafter) in a bid to bolster competition and head off excessively long relationships. In some markets—most notably the enormous UK market—regulators are also knocking around the idea of breaking up the Big Four, forcing them to spin off their tax and advisory practices to avoid damaging conflicts of interest.

It is here that we enter the story, looking to get a grip on a market in flux—where it stands and where it's going. To put the market into context, we begin by scoping out the current state of play. Focusing on the biggest clients in the eight of the world's most important audit markets—namely the US, UK, France, Germany, South Africa, Australia, China, and Singapore—we use data collected from publicly available sources to pin down which firms are auditing which companies and how much they're being paid to do so. We further consider how market share is spread across sectors, typical length of auditor service by jurisdiction, and how revenues are split between audit and non-audit services.

From here, we move to an exploration of audit's increasing regulatory burden and the drive to use regulation to improve audit quality and increase public confidence in the audit process. To better understand how new regulations—most significantly the rise of MAFR—are (and are not) reshaping the market, we have undertaken an extensive study, conducting in-depth interviews with a dozen senior audit partners, finance directors, and non-executive directors and surveying 160 finance professionals to find out what they see happening and what they'd like to see happen next. On the whole, they tell a story of aggressive regulation yielding limited results. And they further suggest how a still-emerging yet potentially far greater transformative power—the world-shaking force of digital transformation—could ultimately do more to accomplish regulators' goals than regulation ever could.

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We are extremely grateful to all the people we spoke to for making this report possible. Below is a list of the individuals who have contributed from consulting firms (some consultants choose to remain anonymous).

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